Statement of Jeffrey Citron
Vonage Holdings Corporation
Chairman and Chief Executive Officer

Before the United States Senate
Committee on Commerce, Science, and Transportation

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I. Introduction.

Good morning Chairman McCain, Ranking Member Hollings, and Members of the Committee, and thank you for inviting me to appear before you today. I am Jeffrey Citron, Chairman and CEO of Vonage, the leading voice over Internet protocol ("VoIP") provider in the United States.

I am honored to be here today. The United States Senate Commerce Committee has been at the center of the technological and telecommunications revolution that has swept the United States over the last decades. Now, we have reached a critical juncture with the emergence of new technologies, and it is imperative that Congress exercise its leadership to pave the way for these technologies before their progress is halted by impenetrable regulatory roadblocks. Going forward, the members of this Committee will play a key role in ensuring that the United States maintains its dominant position in the international technology community, and that every American is able to experience the communications advances that are being developed on what seems like a daily basis. As such, I sincerely value the opportunity to contribute to the debate about VoIP services.

Headquartered in New Jersey, Vonage uses a VoIP software solution to bring voice communications service to consumers nationwide. Vonage customers use a third-party provided broadband connection to make Internet calls, either to another user on the Internet, a traditional telephone, a wireless customer, or a user of another Internet protocol ("IP") network. Regardless of the type of call, a Vonage customer uses a computer and a broadband Internet connection. Through the use of special software and the Internet, Vonage provides its customers with a new communications tool that offers exciting new features and functionality at a significant cost savings to traditional telephone service. Further, because the Vonage service requires customers to use a broadband Internet connection, Vonage's VoIP service drives broadband adoption. For the first time, many of Vonage's customers now find they have a reason to subscribe to high speed Internet service. Indeed, Internet telephony is stimulating the telecommunications and Internet industries, and the economy as a whole.

The consumer and investor response to our VoIP product has been remarkable. As recently as 2001, Vonage was in the research and development phase, and the company did not fully launch its service until 2003. Nevertheless, Vonage is already the clear Internet telephony industry leader, commanding over 63 percent of the market share with a national reach that accounts for more IP telephony lines than the entire North American cable industry combined. Early this month, Vonage announced that it had activated its 100,000th line -- less than 5 months after having activated its 50,000th line. Vonage continues to add over 15,000 lines per month to its network and completes over 5 million calls per week.

While the response to our product is overwhelming, VoIP is still in its infancy, with only .1 percent of all U.S. telephony subscribers, according to Merrill Lynch. As the market and the

technology develop, we encourage policy makers to resist wedging this promising new technology into rigid regulatory boxes that were created for legacy monopoly communication systems and markets. Vonage's form of VoIP is an "information service" like e-mail, and rides over the Internet, which is inherently interstate and incongruous with artificial boundaries.

We understand that critical public policy needs must be met in the context of VoIP, and we commit to working with policy makers on issues such as 911 emergency calling, law enforcement interception, disability access, and the provision of universal service. Meeting these needs, however, does not require that VoIP be regulated under a system of rules created decades ago, intended to govern the conduct of wireline carriers.

Failing to apply new thinking to this new technology carries serious consequences. VoIP providers would have to divert their energies to complying with a patchwork of 51 sets of regulations of questionable merit to this new technology. Compliance would not only be difficult, but in many cases impossible. The result of misguided state efforts to regulate new Internet applications is draining resources away from deployment and innovation, thereby softening the market. Already, Americans are missing out on the benefits of competition and advanced functionality that citizens of Japan and China readily enjoy. Americans are losing out on broadband adoption and the economic benefits it brings. On a broader level, the failure by the United States to capitalize on this opportunity is retarding further innovation, driving VoIP providers off-shore, and contributing to the exportation of technology, jobs, and the tax base. American technological competitiveness is suffering, and we are already lagging behind many countries in Asia and Europe in broadband deployment and VoIP offerings.

Congress and this Committee have exercised visionary leadership with respect to the Internet by codifying in the Telecommunications Act of 1996 a policy of exempting "information services" and thereby the Internet from common carrier regulation. That critical step put this nation on a path toward great advances in Internet technology, and ultimately to the creation of VoIP. We now look to Congress to continue its bold leadership, for a step back would have catastrophic consequences. Time is of the essence, as states have already begun the process of applying antiquated rules to this promising new technology. On the federal level, the Federal Communications Commission ("FCC") appears to be headed in the right direction, but will need your support and guidance as it struggles to ensure that these new technologies flourish while at the same time meeting important public policy goals. We are relying on Congress to reject ill-fitting regulatory models and focus on principles that value consumer benefits, innovation, and economic development.

II. VoIP Creates Consumer and Economic Benefits.

VoIP technology furthers a number of national policy goals. It provides consumer benefits such as lower prices, innovative features, and competition. Vonage's VoIP service, and similar VoIP services, drive broadband adoption, as high speed access is a prerequisite for using the services. Further, this new technology stimulates economic development and American competitiveness.

VoIP Technology. Vonage's service is a software application, independent of the underlying transmission facilities that carry the calls to the Internet. Vonage's VoIP service converts analog voice transmissions into digitized data packets and transmits these packets over either the public Internet or managed IP networks. These data packets are routed using Internet protocol, which is the world's most common method for sending data from one computer to another.

Vonage's Product. The Vonage service operates using a VoIP platform to transmit voice over the public Internet. Vonage customers place calls using computer equipment that is connected to the user's high-speed wireline, cable, or fiber-to-the-home connections, Wi-Fi network, and eventually new networks that have not yet been built. The digital signal is sent over the public Internet, then in some cases, back through a traditional phone network to the receiving party's phone. In order to permit Vonage's end users to communicate with end users on the traditional public switched telephone network ("PSTN"), Vonage had to make our service reverse-compatible with today's technologies. However, our product is also forward compatible; if the receiving party also is a Vonage customer, the call is transmitted wholly across the Internet, never touching the traditional phone network. Forward-compatibility also enables us to terminate calls to wireless phones and other IP networks without ever touching the PSTN.

In some cases, Vonage customers utilize a software program loaded on their computers to make a call. In other instances, the customer will use the special computer adapter. When using the special adapter, the broadband Internet connection is bridged to an ordinary phone essentially serving the same function as a microphone and headset when attached to a computer. In the near future, because Vonage provides a software application similar to instant messaging or e-mail, Vonage customers will be able to use a Wi-Fi cordless handset or even personal digital assistants ("PDAs") or other Internet-enabled device loaded with special "softphone" software.

Consumers Get More for Less. Through innovative software and hardware, Vonage provides its customers with increased functionality and significant cost savings. For example, the Vonage service package includes voicemail, caller ID, call waiting, call forwarding, call transfer, 3-way calling, repeat dialing, call return, caller ID block, and call hunt for no extra charge. Vonage customers experience such enhanced functionality as local number portability, area code selection, the ability to use multiple phone numbers, web based voicemail retrieval, national number mobility, and online features management. For this multitude of services, Vonage offers customers flat rate billing options that range from $14.99 per month for 500 minutes anywhere in the United States and Canada to $34.99 for unlimited local and long distance calling in those areas.

Competition. Congress has made it a national priority to encourage telecommunications competition. While great strides have been made by traditional telecommunications providers in the competitive business and long distance markets, there has been no meaningful competition in the local residential market. VoIP providers are accelerating competition in this area, realizing technological advancements and lowering consumer costs, all of which are goals Congress sought to achieve with the 1996 Telecommunications Act.

Even within the VoIP market, companies have implemented a variety of consumer offerings that generally fall under the "VoIP" banner, two of which are consumer applications: computer-to-computer and computer-to-phone. Using computer-to-computer products, the call dialing and receiving party both must possess special premises equipment that differs from an ordinary analog telephone. Vonage customers can talk computer-to-computer, and Vonage's service is also capable of reverse-compatibility with the legacy phone system by performing the net protocol conversion necessary to allow customers on the Internet to communicate with customers on traditional switched networks and vice versa, largely known as computer-to-phone VoIP. Additionally, Vonage users are able to communicate with many other kinds of networks, such as wireless networks and IP networks. In short, Vonage both enables reverse-compatibility with existing services while readying consumers for the technologies and functionalities of the future, when all networks will be IP based.

Broadband Deployment. While an estimated 85 percent of U.S. homes currently are capable of receiving broadband Internet access, only about 20 percent of all U.S. homes (23 million total broadband subscribers) have adopted the technology. These numbers pale in comparison to countries such as Korea and Canada. Those countries had broadband penetration levels at almost twice that of the United States. Also impressive is the development of broadband services in Japan. In 2001, there were less than 10,000 digital subscriber line ("DSL") broadband customers in the entire country. In just three years, the broadband market has swelled to over 10 million customers.

Because VoIP services require a broadband connection to achieve the necessary speed and "always on" functionality, VoIP provides consumers with the incentive to upgrade to these broadband networks. In fact, many Vonage customers upgrade to broadband simply to use our service. Often these customers find that they can receive the additional benefits of Vonage's service *and* high speed broadband for less money than it typically costs to purchase a traditional telephone service and narrowband Internet access. VoIP penetration drives broadband adoption, which in turn promotes broadband deployment.

American Competitiveness. Investment in the technology sector will drive innovation and help America reinforce its role as the world technology leader. This role is at stake given that broadband deployment has lagged in this country, and VoIP adoption in other countries has already surpassed the U.S. That growth has been attributed, in no small part, to the Internet telephony services that some Japanese broadband providers offer, like Yahoo! BB, which already has 3 million VoIP users. The only way America can maintain its position as the world's technology leader is to foster the growth of new technologies like VoIP.

Economic Benefits. VoIP can spur a telecommunications industry rebound and contribute to the national economic recovery. The telecommunications industry, which once helped drive the technology boom of the mid-to-late nineties, has been hard hit by the nation's economic slump. Merrill Lynch estimates the S&P integrated telecom index fell about 64 percent from January 2000 to January 2004, while the broader market fell only about 24 percent. According to a 2004 VentureOne report, investment levels in the communications sector are down to 1996 levels.

Internet telephony can help revive the telecommunications, technology, and equipment sectors and the economy in general. Excitement surrounding VoIP services has already increased investment. A VentureOne report stated that IT investments increased to $2.3 billion last quarter, up from $2.1 billion in the third quarter. That increase, which was the first time IT funding had demonstrated sequential growth since 2000, was due in part to several large investments in VoIP providers. Further, several VoIP equipment manufacturers, such as Sonus, Cisco, Lucent, and Motorola posted large stock price gains for 2003, partially due to increasing interest in VoIP equipment and services.

III. Congress Should Continue its Policy of Allowing "Information Services" to Grow Unfettered by Regulation.

In an effort to stimulate innovation and competition in the Internet sector, Congress and the FCC have long respected policies that differentiate "information services" from regulated telecommunications services. While Internet telephony may, in some respects, resemble traditional telephony from a consumer perspective, from a technical and regulatory perspective, Vonage provides an "information service."

Federal Precedent. Federal policy has long differentiated "telecommunications services" and "information services." The FCC distinguished between "basic services" and "enhanced services" as far back as 1980 in the FCC's *Second Computer Inquiry*, 77 FCC 2d 384 (*Computer II*). Basic services are essentially telecommunications common carrier services that are regulated under Title II of the Communications Act of 1934. The FCC concluded that regulation of enhanced services is unwarranted because the market for those services is competitive and consumers benefit from that competition. *Id.* at 433. The FCC acknowledged that notwithstanding this decision, there is a communications component in some enhanced services. *Id*. at 435. The FCC reaffirmed the distinction between basic and enhanced services in its *Computer III* proceeding in 1986. *Third Computer Inquiry*, 104 FCC 2d 958 (*Computer III*).

Congress Codifies Distinction. The Telecommunications Act of 1996 mirrors this distinction with its definitions of "telecommunications service" and "information service." The 1996 Act defines "telecommunications service" as "the offering of telecommunications for a fee directly to the public or to such classes of users as to be effectively available directly to the public regardless of the facilities used." 47 USC 153(46). The Act defines "telecommunications" as "transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received." 47 USC 153(43). By contrast, the 1996 Act defines "information service" as "the offering of a capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available information via telecommunications, and includes electronic publishing, but does not include any use of any such capability for the management, control, or operation of a telecommunications system or the management of a telecommunications service." 47 USC 153(20).

By codifying these definitions, Congress set out a policy of separating regulated common carrier services from Internet services to encourage innovation and competition. Congress found that "[t]he Internet and other interactive computer services have flourished, to the benefit of all

Americans, with a minimum of government regulation." 47 USC 230(a)(4). In order "to promote th[is] continued development," the 1996 Act reaffirmed the "policy of the United States" of maintaining the Internet "unfettered by Federal or State regulation." 47 USC 230(b).

"Information Services." By these definitions, VoIP is an information service, and not a telecommunications service. VoIP is a software application that rides on broadband Internet networks. VoIP service offers the "capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available information via telecommunications." 47 USC 153(20).

Policy Has Worked. The government's policy of encouraging innovation through a regulatory safe harbor sparked unimagined innovation in Internet development, and led to the development of VoIP. For years, VoIP services were more theory than reality, and were largely ignored by policy makers. The neglect proved positive as entrepreneurs and inventors saw an open playing field and were provided incentive to create. VoIP is rapidly growing, and should be allowed to continue, without the trappings of common carrier regulation. Now, as VoIP is gaining consumer acceptance, policy makers have announced an intention to explore and even regulate the service, but this would be a mistake. As I have noted, VoIP still only accounts for .1 percent of U.S. telephony subscribers. The technology is in its infancy, and should be allowed to grow consistent with the policy that led to its inception.

To that end, policy makers should clarify the existing statutory framework to ensure that it continues to reward innovation, foster consumer benefits, and facilitate broadband deployment and the growth of the Internet. In this respect, it is imperative to make clear that VoIP services such as Vonage's are not telecommunications services, but rather are interstate information services.

IV. There are Serious Risks to Prematurely Regulating VoIP.

Regulating VoIP prematurely could threaten the consumer and economic benefits that have already resulted from this nascent technology. While the technology is beginning to reach the mass market, it is still evolving, and it is too early to know what regulations, if any, are necessary. What is known, however, are the risks of regulation.

Patchwork of State Regulation. Failure to establish a federal policy protecting the growth of VoIP could result in a patchwork of premature, burdensome state legislation and regulations, crippling the domestic VoIP industry. Overregulation, particularly differing regulations in all 50 states and the District of Columbia, will make it impossible for VoIP to grow. Newer companies like Vonage do not have the resources to participate in proceedings at every state utility commission, nor to comply with 51 sets of differing regulations that may each have the same goal, but may require us to comply in different ways. The Internet, by its very nature is an interstate service, incapable of being divided into artificial boundaries. Policy makers should recognize this inherent feature of the Internet when formulating policy and applying such policy to applications riding over the Internet.

Vonage's Experience. Vonage experienced first hand the strain that burdensome state regulations can place on a nascent technology company. The Minnesota Public Utilities Commission ("PUC") last year asked Vonage to obtain a certificate of authority to provide a telephone service. Vonage had less than 500 customers in Minnesota, yet was forced to vigorously oppose the Minnesota PUC to avoid the establishment of an improper state level precedent. Vonage argued, in general, that its VoIP service was an interstate "information service" pursuant to the Communications Act, and thus not subject to Minnesota PUC regulation.

The United States Federal District Court for the District of Minnesota ruled in Vonage's favor on October 14, 2003. While Vonage was pleased with the decision, successfully fighting the case was a serious drain on Vonage's resources, and continues to be burdensome. The Minnesota PUC is currently appealing the case for a second time, forcing Vonage to use valuable human and financial resources to fight court battles, directing these resources away from service enhancements and innovations, including technical solutions to meeting public policy goals. Vonage simply could not afford to duplicate this effort in 49 states and the District of Columbia. We would be driven out of business.

A few states have expressly declined to regulate VoIP. In 2003, the Florida state legislature mandated that VoIP services should remain free from unnecessary regulations, and we commend them for setting an early example before the current regulatory push. The Colorado PUC also found that imposing common carrier regulation on VoIP services would be unnecessary. Numerous other states, however, including New York, Ohio, Utah, Missouri, Pennsylvania, Illinois, and Wisconsin, continue to explore the possible application of common carrier regulations to VoIP providers. The march toward regulation continues: the California PUC last week tentatively concluded that VoIP services that enable communications with the traditional phone network are public utilities and subject to its jurisdiction.

We hope that federal policy makers will take action to make clear to states that VoIP is an interstate information service, thereby halting the march of the states to regulate it.

National Policy Issues. With resources stretched thin for VoIP providers, overregulation by the states or the federal government would slow technological development. With the uncertainty that is created by this regulatory hodgepodge, capital will dry up. If the U.S. becomes a hostile environment for VoIP, domestic innovation will slow, risking this nation's role as a technology leader. Furthermore, since VoIP services are provided over the Internet, they can be launched from anywhere on the globe. Providers like Skype are already offering services from off-shore locations. Not only would it be a loss of this nation's technology base, once providers move off-shore, the U.S. would have no access to the services and thus face difficulties meeting public policy goals such as 911 service, universal service, or law enforcement intercepts for these off-shore services. The U.S. would also lose an important tax base, and would see a further exportation of service jobs.

V. VoIP Providers Can Meet Public Policy Goals.

While policy makers are rightfully concerned about how VoIP fits in with public policy goals, VoIP can assist in meeting these aims, and in some cases it even holds more promise than

legacy systems. VoIP will, of course, have to meet public policy goals in ways that are technically feasible for its technology, and government should help facilitate such growth through an understanding of the capabilities and limitations of the technology.

The issues public policy makers most often identify as areas of concern are compliance with emergency 911 capability, disability access, universal service, law enforcement access to call intercepts, and intercarrier compensation. However, public policy goals can be and are being met without classifying VoIP as a telecommunications common carrier service.

911 Dialing. The ability to access emergency services through dialing 911 is an important feature for consumers of telephony, whether it is plain old telephone service, wireless service, or VoIP service. VoIP service offers the promise of truly exciting functionality in this area. While we are building solutions now, ultimately VoIP will offer consumers and emergency workers more functionality than the services of today. For example, VoIP customers in the future might be able to access 911 services through any Internet-equipped device, such as a Blackberry, PDA or instant messaging product. In addition to the customer's precise location, emergency workers may be able to instantly and seamlessly access that customer's medical history, while at the same time a separate message could notify the customer's primary physician or family members of the emergency situation.

Vonage is the VoIP industry leader in providing a 911 solution to its customers. Similar to traditional telephone service, Vonage customers who dial "9-1-1" on their handsets have their calls forwarded to the Public Safety Answering Point ("PSAP") for that customer's designated area. There are, however, several technology issues that currently cause the Vonage solution to differ in certain respects from traditional 911 service.

First, similar to cellular providers, the mobility of the Vonage service prevents it from being able to identify the actual geographic location of customers that place a call using the Vonage software. Thus, Vonage requires customers to register their location before they are able to use the 911 service, and then routes any 911 calls to the PSAP serving that location. Because of the mobility of VoIP customers, the industry will have to develop special technology solutions to provide enhanced location information to PSAPs. This will require systems upgrades not only by VoIP providers, but also by incumbent local exchange carriers ("LECs") and PSAPs.

Second, in order to route 911 calls to a PSAP's dedicated 911 lines, Vonage must obtain interconnection to the incumbent LECs. While some incumbents are cooperating with Vonage and local PSAPs, others are refusing to work with Vonage and local PSAP administrators to foster interconnection arrangements or technical trials. The reaction has been mixed, to say the least. We have had serious problems with Qwest in Minnesota in this regard, but Qwest in Washington state has been very cooperative. So even with the same LEC, there are inconsistencies. Indeed, despite direct intervention from the PSAP administrator in Minnesota, Vonage has been unable to obtain E911 trunk interconnection, and has been forced instead to route Vonage customers' 911 calls to the PSAP's administration number. SBC in Texas has been very helpful, and we commend them for that and look forward to continuing that productive relationship. In this area, it would be helpful for Congress to encourage the LECs to provide

such assistance as access to trunk interconnection so we can fulfill our commitment to offering wireline-comparable 911 services.

Vonage makes the limitations inherent in its 911 service clear to all Vonage customers and is continually working to remedy these issues. Vonage is working with the National Emergency Number Association ("NENA"), which recently adopted a joint resolution with the VoIP industry, to develop technical solutions for VoIP 911, and we are regular participants in the NENA working group. Vonage independently is working with the PSAPs in Minnesota, Texas, Washington, and Vermont. We are participating in the FCC's March 18, 2004, Internet Policy Working Group "Solutions Summit" on 911/E911 issues associated with Internet-based communications services. Further, Vonage is working to upgrade its 911 service and negotiating with competitive LECs to obtain indirect access to the E911 trunks.

Vonage is confident that it will be able to offer a 911 solution to its customers in the near future that is comparable to that offered by traditional telecommunications providers. All of this is being done despite the fact that VoIP is not classified as a common carrier service nor required to provide these offerings.

Disability Access. Individuals who have disabilities should have full access to the range of developing technologies. While VoIP technology and deployment are in the early stages, VoIP providers anticipate software solutions to disability-related obstacles to service. Given the flexibility of software solutions, we anticipate that VoIP providers will ultimately be able to offer greater functionality than the traditional legacy systems.

Universal Service. Congress has expressed its commitment to ensuring that rural and underserved areas receive telecommunications services equivalent to those found in more high-density or well-funded locations through the Universal Service Fund ("USF"). In this context, Congress is contemplating USF reforms and may consider the role of VoIP services as part of that exercise. While it has been suggested that VoIP is a threat to the fund and therefore VoIP services must be regulated as telecommunications services, in fact the existing system is "failing" for a number of reasons and VoIP does not need to be regulated as a common carrier service in order to make direct contributions to USF.

The FCC has opened a rulemaking in which it is examining ways to ensure that USF support remains sustainable. As part of that proceeding, it has recognized that numerous factors are contributing to the decline in monies paid into the USF, and the emergence of VoIP services is only one small piece of that puzzle. For example, the decline in long distance rates, the proliferation of flat-rated calling plans and bundled service packages, and the substitution of wireless, e-mail, instant messaging, and other services for traditional long distance calling have all reduced monies flowing into USF.

VoIP providers can and do pay into the fund as end users, and there is flexibility under current law to accommodate VoIP services in relation to USF. Even if policymakers determine that VoIP providers should contribute directly to USF, such a result could be achieved under existing law. The FCC has broad statutory authority to modify the current contribution metrics without engaging in any perversion of the dichotomy between information and

telecommunications services. FCC Chairman Powell testified before this Committee on October 30, 2003, that the FCC has "legal authority to assess Universal Service contributions against information service providers that use telecom." Under current law, VoIP providers offer information services, but they use some underlying telecommunications services. VoIP providers need not be regulated as carriers to be required to contribute to universal service.

Unfortunately, the USF distributions currently are weighted heavily towards the support of legacy narrowband networks, which are not capable of supporting broadband Internet access services or the modern applications that run on these broadband networks. This continued support of legacy networks at the expense of the deployment of modern broadband networks and applications will only serve to further distance the United States from the rest of the world leaders in terms of broadband adoption and the development of modern applications, such as VoIP. Therefore, Vonage believes it is important that any USF reform efforts should consider policies that encourage construction of broadband-capable networks in high cost areas.

Law Enforcement Intercepts. Without exception, Vonage has complied with all subpoena requests from law enforcement, including providing call logs, records, and other detailed account information. In the future, Vonage software will also allow law enforcement intercept capabilities. Vonage is committed to assisting law enforcement and will comply with VoIP requirements determined by policy makers. The FCC has announced its intention to open a proceeding to consider the interaction between CALEA and VoIP. Vonage looks forward to participating in that proceeding, and in working toward a technical solution wherein VoIP providers can continue to assist law enforcement in their surveillance efforts. It is not necessary, however, to classify VoIP as telecommunications services in order to meet law enforcement needs.

Intercarrier compensation. Intercarrier compensation has been included in the panoply of issues that policy makers are considering as they evaluate the impact of VoIP services on the market and on public policy. Vonage does not connect directly to the phone network, but rather contracts with carriers to transport its calls to their destination on the public switched network. Vonage has not thus far participated in proceedings related to VoIP access charges (computer-to-computer calls are subject to Internet industry voluntary peering arrangements for termination to other computer users). Nonetheless, Vonage recognizes, as many policy makers do, that the access charge system is broken and in need of repair. However, Vonage emphasizes that VoIP is not the source of the access system's ills; these problems have myriad causes and predated the emergence of VoIP by several years. VoIP consumer products, such as Vonage's service, will not have an impact on access charges for a long while to come, as we represent only .1 percent of telephony subscribers.

The existing system of intercarrier compensation is complex, imposing unique charges on each different type of carrier and each different type of service. The FCC has recognized that these disparities are unsustainable in a converging and increasingly competitive market and has been examining intercarrier compensation reform for almost three years. Vonage urges Congress to support the FCC's efforts to reform this broken system.

In Section 254(e) of the Telecommunications Act of 1996, Congress required the FCC to make the implicit subsidies in the access charge regime explicit, and the monies to be collected in the Universal Service Fund. The FCC has begun the process of making interstate USF support explicit and reducing subsidies implicit in interstate access charges. We are hopeful that the FCC will finish these reforms as quickly as possible and that the states will also take up this important matter and remove implicit subsidies and rationalize their intercarrier compensation systems as well.

Removing implicit subsidies from the system of access charges and imposing a single cost-based termination charge on all types of providers and traffic should end any alleged arbitrage opportunities and bring rationality to the system.

VI. Recommendations.

As Congress contemplates the role of VoIP as a provider of consumer voice services, we offer our perspective on what policies would help VoIP to grow. First, Congress should make clear that VoIP is an interstate service, like the Internet itself. Doing so will bring regulatory clarity, which will stimulate investment and promote further consumer benefits. Second, Congress should reaffirm that VoIP services such as Vonage's are "information services," and therefore VoIP providers such as Vonage are information service providers. Public policy needs can be met without regulating communications over the Internet as if they were being provided by a telecommunications carrier.

We look forward to working with Congress during this exciting time. We hope that Congress will continue its historic support for Internet based technology, by allowing the sector to grow unfettered by ill-fitting regulations that were designed for legacy systems. Any less would imperil VoIP carriers like Vonage in the face of what will soon become overwhelming regulation. VoIP providers have something valuable to offer to consumers, but we can only move forward by focusing our limited resources on improving our service, growing, and meeting critical public policy mandates like those this Committee is considering.

I look forward to answering any questions you might have.